OCEAN EQUITY

Ocean Equity – hidden quality and long-term winners

Recent months have seen many comparisons between the UK equity market and that in the US. The decision by UK-based microchip company Arm Holdings to list on the Nasdaq in the US rather than here has led to the belief in some quarters that the FTSE 100 is a poor relation.

Such a mindset can create opportunities. Currently, we think that about one third of the FTSE 100 index is investable, with the other two thirds unable to meet our thresholds for the criteria we use to identify businesses that are of very high quality in terms of management, economics and market opportunity. Within the 'investable' group are several companies that operate slightly under the radar, do not get the press they deserve and, as a result, can offer attractive opportunities for investment. It is these high-quality businesses that we seek to identify to populate Ocean Equity.

High-quality businesses

The funds we manage are finite, and we want to invest only in companies whose stock we can acquire at an attractive price and that are likely to be winners over the long term. To identify them, we collect and analyse data and apply a 'competition for capital' mindset. The businesses we select share certain common characteristics, such as high returns on invested capital, a long-term management orientation and a bolt-on M&A approach.

Backing experience can deliver good outcomes

Management tenure is a very important factor in determining long-term management orientation, and we think it is often overlooked. It can be notoriously difficult to make informed judgements of managers' mindsets, especially as their actions can take years to show up in the economics of a company's operations.

Analysis of our portfolio revealed some striking trends. The CEOs of the companies we invest in have been in post for an average of 12 years; more importantly, they have worked in their sector for an average of 25 years. That means they have experience of overcoming challenging market conditions all the way back to 1998, which saw the (now often forgotten) Long-Term Capital Management Hedge Fund collapse and emerging market currency crises. Further, those business managers have lived through the telecoms, media and technology (TMT) crash of the early 2000s, the global financial crisis of 2007-8 and the Covid-19 pandemic.

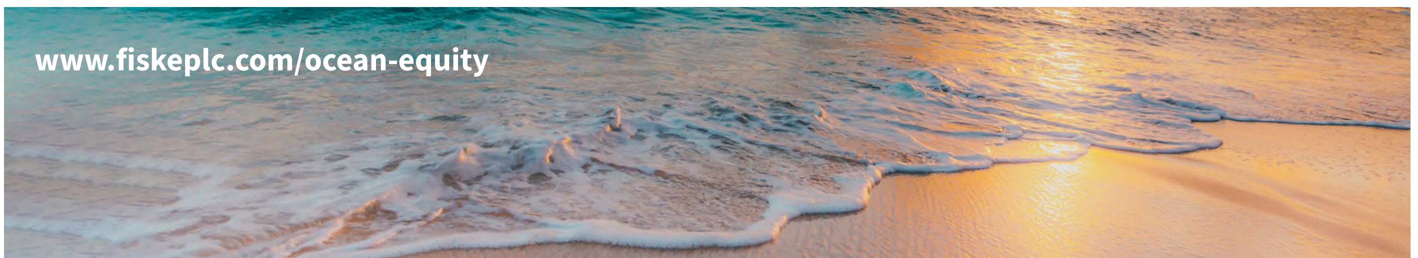
We think this experience has the potential to be quite powerful in relation to aspects such as capital allocation, M&A pricing, retention of staff and the ability to serve clients through the cycle. In our opinion, long-term, hard-earned experience gives these managers critical foresight and helps them decide when to put their feet on the accelerator and when to hold back.

One company that illustrates this is Halma, which has had only four CEOs and CFOs since IPO in 1972. The newish CEO, Marc Ronchetti, spent six years as CFO under the previous CEO, David Williams, so he is well placed to continue to execute on the Halma model of driving organic and inorganic growth via the provision of mission-critical products and services.

Halma – a company managed for the long term

Halma demonstrates what we look for in a very high-quality, sustainable business with attractive economics.

Founded in 1894 in Sri Lanka, the company started as the Nahalma Tea Estate Company Limited. Eighty years later it was reconfigured as a technology-enabled engineering



business. Today it holds leading positions in growing markets such as safety, environmental analysis and healthcare. Many of its end markets – for instance, fire detection and suppression, water analysis and the diagnosis of medical conditions – are non-discretionary and mission-critical. Halma's products and services perform value-adding functions for its clients and are a relatively small amount of their overall cost base. These characteristics deliver attractive operating metrics that lead to powerful compounding economics.

With strong positions in niche markets and a self-funding business model, Halma is well positioned to grow over the long term. We discovered the company during the 2007-8 global financial crisis, when investors could pick up its shares for about £1.50. They currently trade around £25.00, having peaked at £32.00 in late 2021. In its most recent full-year results Halma reported its 20th consecutive year of record revenues and profits and the 43rd year of dividend increases greater than 5%. Today it is valued at over £9bn and is in the FTSE 100. An individual who had invested when the company went public in 1972 would be sitting on a gain of around 38,000%.

Ocean Equity Fund – A portfolio of high-quality businesses for the long term

As fund managers, we want our clients to benefit from the kind of performance that Halma has delivered. We hold many other UK-based business that display the same high-quality characteristics. Examples include **Compass** (contract catering), **Spirax-Sarco** (steam and fluid management), **discoverIE** (electronic components for industrial applications), **Ashtead** (industrial equipment rental) and **Games Workshop** (miniature wargames, such as Warhammer).

We believe there are fantastic opportunities in the UK equity market, and we see no shortage of candidate companies suitable for investment when we adopt our 'competition for capital' mindset. They must earn the right to be in the fund, and this blog has introduced you to some of the criteria we use when searching out high-quality businesses.

Contact us

For any queries please contact:

Michael Foster – Fund Manager
michael.foster@fiskeplc.com
020 74484752

Kevin Mordrick – Fund Sales
kevin.mordrick@fiskeplc.com
07557798421

AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY | MEMBER OF THE LONDON STOCK EXCHANGE
NOT FOR DISTRIBUTION IN THE U.S.A.

This investment view has been issued by Fiske plc on the basis of publicly available information, internally developed data and other sources believed to be reliable and accurate. No representations or warranty, expressed or implied, is made nor responsibility of any kind is accepted by Fiske plc, its directors or employees either as to the accuracy or completeness of any information stated in this investment view. Any opinions expressed (including estimates and forecasts) may be subject to change without notice. This document is not intended as an offer to buy or sell the fund nor as a personal recommendation. Fiske plc, or any of its connected or affiliated companies or their employees, may have a position or holding or other material interest in the fund concerned or in a related investment, or may have provided within the previous twelve months, significant advice or investment services in relation to the investment concerned or a related investment.

Investors must be aware of the risks associated with investment in this fund. Full details of the Ocean Equity Fund, including risk warnings, are published in the Prospectus and Key Investor Information document. The fund may not be suitable for all investors and if you are in any doubt whether the fund is suitable for you advice should be sought from a suitably qualified professional advisor. The value of the fund and the income derived from it can go down as well as up. Investors may not get back their initial investment. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realised. Securities denominated in foreign currencies may see their value fall as a result of exchange rate movements. Any comments contained in this investment view are intended only for the use of the individual or entity to which it is addressed and may contain information which is confidential and may also be legally privileged. If you have received this document in error, please telephone the Compliance Department on 44 (0)20-7448-4700. Fiske plc FCA Register No: 124279